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Power, ideas, and national preferences: Ireland and the FTT

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ABSTRACT

European countries have been required to formulate a national preference in relation to the EU Financial Transaction Tax. The two leading approaches to explaining how the financial sector makes its views felt in the political process – the structural power of the financial services sector based on potential disinvestment, and its instrumental power arising from direct political lobbying – fall short of providing a comprehensive account. The missing link is how and why policy-makers might be willing to adopt the priorities of key sectors of the financial services industry. We outline how three levels of ideational power might be at work in shaping outcomes, using Ireland as a case study. We argue that background systems of shared knowledge that are institutionalised in policy networks generated broad ideational convergence between the financial sector and policymakers, creating a policy paradigm over the priorities of industrial policy in general. Against that backdrop, debate over specific policy choices (policy instruments and policy settings) can leave room for a wider range of disagreement and indeed political and ideational contestation. Irish policymakers proved responsive to industry interests in the case of the FTT, but not for the reasons normally given.

KEYWORDS Ideational power; national preferences; policy choice; FTT; Ireland

Introduction: how did Irish policy-makers come to oppose the FTT?

A Europe-wide Financial Transaction Tax (FTT) was one of the first measures to be proposed for advancement through voluntary ‘enhanced cooperation’ among member states. This permits us to focus on a key topic on contemporary comparative political economy, that is, the power of the financial sector in shaping national policy, not only in the domestic political context but also

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against the backdrop of EU-wide policy discourses. The argument of this paper is that our understanding of the mechanisms through which structural and instrumental power may be converted into political influence continues to be problematic. The financial services sector can command a lot of structural power to secure its interests. It also exercised instrumental power through active lobbying at European level against proposals for the FTT, building coalitions with other industry actors on a transnational basis and overtly playing upon European policy makers' perceptions of governments' structural dependence on finance (Kalaitzake 2017; Kastner 2017). Nonetheless, ten EU member states declared themselves to be in favour of the FTT. But how were industry preferences conveyed to national policy-makers, and how might public policy preferences come to adopt the priorities of the financial sector?

Drawing on Carstensen and Schmidt (2016), we supplement structural and instrumental approaches with an ideational and discursive explanatory approach. Taking the case study of Ireland, we note the convergence of the preferences of the financial sector and the policy officials against the FTT. The financial sector opposed the FTT for familiar reasons. But we find that the motivations of the official side cannot be fully accounted for by either structural or instrumental explanations. We argue that national policy outcomes were shaped through discursive convergence that took place through a well-institutionalised network linking state and business interests together. This is not inconsistent with noting that the official side also has scope for autonomous policy choices on particular issues, even to the extent of overtly opposing industry preferences in some instances. An ideational explanation of policy contestation fills the explanatory gap between financial sector preferences and the outcome of the policy process.

The paper is organised as follows. Part 2 outlines the current state-of-the-art on financial power and summarises our analytical framework about how power is exercised through ideas. Part 3 discusses the inconclusiveness of structural and empirical explanations of Ireland's opposition to the FTT and shows where the explanatory gap lies. Section 4 sets out the background to the policy considerations motivating the Irish official sector, showing how ideational explanation provide us with the missing causal mechanism. Section 5 sets out the evidence supporting our interpretation, drawing on wide-ranging interviews with key respondents in the industry and in official policy world, conducted in June and July 2017 (see the Appendix for details). The final section draws together the conclusions and considers implications.

Ideas and financial power

The financial sector enjoys considerable structural power in market economies due to the threat of disinvestment and the mutual dependence between

the state and the financial sector. Politicians rely on the financial sector for growth in the economy – as new investment requires capital availability – and the financial sector relies on politicians to provide a favourable regulatory environment. However, the translation of structural power into effective influence over policy-making priorities is not necessarily automatic and can be contingent on other features of the political and organisational environment.

Three important aspects of contingent power have been identified. Firstly, finance typically prefers to exercise ‘quiet power’ based on its structural advantages. But if issues become politically salient, beyond the range of their direct influence and played out in the democratic political arena, they may need to deploy instrumental power through lobbying, and by seeking to shape public opinion directly (Culpepper 2010, 2015; Kastner 2017). Secondly, the financial industry itself is not monolithic and can face its own collective action problems (James and Quaglia 2018; Kus 2016). Thirdly, institutional access can be variable. Tsingou makes the case that club-like governance brings regulators and the finance industry together and renders policymakers receptive to industry interests (Tsingou 2015). But this may not always be effective. Policy actors on the official side may become less receptive to the preferences of the finance industry because they are required to be more attuned to electorally-driven priorities (James and Quaglia 2018).

These considerations about the contingent power of finance have contributed significantly to our understanding of the challenges that can arise in the gaps between finance and politics, the capacity for collective action of the financial sector, and the receptivity of the state institutions. They also point to a further aspect of power, which is that the politics of interest and influence is played out within a framework of ideas involving assumptions about the costs and benefits of alternative course of action, what is feasible politically, and what is acceptable in terms of electoral legitimacy. In other words, power is also exercised through the ideas that are in play about how the world works.

In this paper, we propose that ideas are a major mediating factor in accounting for outcomes that are favourable or unfavourable to the finance industry. Carstensen and Schmidt identify three mechanisms in the exercise of ideational power (Carstensen and Schmidt 2016). Firstly, power ‘through’ ideas involves persuasion through coordinative and communicate discourse, often actively undertaken by a policy entrepreneur to get an issue or a priority onto the political agenda. Secondly, power ‘over’ ideas is the capacity to control the meaning of ideas the terms of discourse. Dominant actors may be able to impose their preferred interpretations and meaning on others and to exclude alternatives. Contestation for influence over the prevailing ideational framework is entirely possible here. Subordinate or weaker actors such as civil society actors, community organisations, and non-governmental

organisations, may nonetheless work as ‘policy entrepreneurs’ try to modify the prevailing terms of discourse and to appeal to a normative framework that will result in shaming their adversaries. Finally, power ‘in’ ideas refers the institutionalisation of certain ideas at the expense of others and a widespread acceptance of what is normal that is ‘constituted by systems of knowledge, discursive practices and institutional setups’ (Carstensen and Schmidt 2016: 329).

This framework helps us identify an explanatory puzzle over how and why policy actors (government ministers, public service and public agency officials) might adopt the priorities of finance. There is an explanatory gap between arguments based on structural and instrumental power on the one hand, and the outcome of interest on the other. James and Quaglia demonstrate that shifts in political priorities and changes in organisational and institutional conditions can disrupt the effectiveness of structural and instrumental power advantages of finance, downgrading of the financial sector’s ability to frame the discourse over the terms on which Brexit might be settled (James and Quaglia 2018). In the case considered here concerning the Irish state’s decision not to participate in the FTT, we suggest that the ideational position of the government enabled an upgrading of the influence of the financial sector.

How then do the preferences of the finance industry come to be taken up by policy actors and eventually prevail in the political sphere? While reflecting on Carstensen and Schmidt’s categorisation of ideational power to the world of policy-making, it may also be useful to remember Hall’s model of paradigms in the policy process (Hall 1993). Firstly, Hall posited that the contestation of ideas may involve disagreement over the settings of the instruments used to implement standard policy models in order to achieve agreed policy goals. Secondly, the policy instruments may themselves be brought into challenge. Thirdly, the most extensive level of ideational contestation may involve a wholesale challenge to the policy paradigm itself.

We can then envisage different levels of ideational alignment between powerful interests (in our case, the financial sector) and the state (the policy actors involved in policy making and implementation in the field of industry, finance, and revenue, among others); and we may envisage these as being worked out at different layers of policy contestation. Notably, we allow space at each layer of the policy paradigm for contestation by different actors and for alternative ideational constructions to be deployed about the policy choices that are under review. The ideational background to the structural and instrumental power of finance can be analytically set out as in Table 1 below.

At the most fundamental level we can model a shared set of cognitive and normative assumptions about the on which market societies operate. This is the shared paradigmatic framework that makes it possible for finance to

Table 1. Ideas and financial power.

Policy framework	Role of ideational contestation	Finance	State actors	Policy implication
Paradigm: the terms on which the market economy functions (eg tax-incentivised FDI-led growth) 'Business as usual'	Power 'in' ideas	'Quiet power'. Most favourable environment	Highly aligned in its commitment to investment, growth, jobs	Implication A: Little visible contestation
Instruments: tax and regulatory provisions Salient issues that are performe politically visible	Power 'over' ideas	High-stakes issues; induces more over exercise of instrumental and threat of structural power	Competing constituencies to satisfy; longer time-horizons; competing values such as prudential risk-management, long-term reputation-management	Implication B: Overt contestation; Potential for electoral and civil society preferences to trump finance preferences
Settings: levels and rates of tax, specific exemptions, scope of regulation, etc.	Power both 'through' and 'over' ideas	Scope for influence through instrumental, ie lobbying power	Less politically visible issues; scope for latitude toward finance's preferences	Implication C: Scope for closed, club-like governance

exercise structural power. More specifically, broad political consensus privileging a particular growth model can itself be understood as a policy paradigm that sets the framework of engagement between political actors. In the Irish case, the long-standing model of tax-incentivised FDI-led growth can be seen to have just such a dominant or paradigmatic significance in economic debate (Barry 2003; Brazys and Regan 2017). Where the terms on which the market economy functions are not fundamentally challenged, the ready translation of the preferences of finance into policy implementation may be relatively unproblematic: this is Implication A in Table 1. A second option arises when issues become politically salient and finance can no longer rely on the 'quiet' power they prefer, out of the political spotlight (Culpepper 2010). This is where civil society actors may become involved and vocal, and public opinion takes heed of the issue such that political actors are required to respond to their electorates. The scope for overlapping policy preferences between policy actors and financial interests is reduced, as suggested in Implication B. Lower-salience issues to do with details of policy design (the 'settings' of the policy instruments, in Hall's terms) and indeed policy implementation may still be of great significance for finance, which may well expend a great deal of effort to influence the outcome. But the location of influence may well move out of the electoral and political arena and is more

likely in that case to be settled on terms favourable to finance, as in Implication C.

We also recognise, of course, that the power can be exercised in different arenas and using different and even all resources simultaneously (or indeed that there may be a temporal sequencing of types and locales of influence). As Carstensen and Schmidt note, 'coercive, institutional, and ideational' uses of power are not insulated from each other in real political contexts (Carstensen and Schmidt 2018: 2). But the analytical framework can help us clarify some important potential channels of influence nonetheless.

The European financial transaction tax (FTT) in Ireland

We draw on the framework set out in Table 1 to explore the case study in question, that is, the Irish government's decision to reject participation in the FTT. Structural and instrumental explanations of Ireland's opposition to the FTT do not take the argument all the way home. Our aim in this section is to show where the explanatory gap lies and to provide a better account of the outcome.

The FTT is an important initiative in response to the global financial crisis. Initially proposed at the height of the crisis in 2011, it is aimed at capital markets (equities, debt securities, and derivatives), and applies only to the secondary market (where the primary market includes the first-time issuance of equities, bonds, and derivatives). The rate at which the tax is set is very low (0.1% on securities and 0.01% on derivatives), but it would be expected to yield significant sums on high-frequency transactions. The tax was designed to be collected on the basis of residence and issuance principles, requiring trading firms to pay it to the first-issuer country of the shares or derivatives.

The FTT was intended to do three things. Firstly, it had a regulatory dimension and was intended to disincentivise excessive financial sector volatility, although repo markets came to be excluded, reducing its potential reach into shadow banking (Braun 2018; Gabor 2016). Secondly, it was supposed to yield a valuable revenue stream from profitable sectors of finance, in the wake of the expensive taxpayer bailouts of commercial banks. Thirdly, it was intended to harmonise financial taxation across member states. EU member-state opinion on the initiative was divided, but as the measure obtained more than the minimum number of nine member-states supporting it, the plan was that it should proceed as an 'enhanced cooperation' measure. Final agreement is still pending at the time of writing.

The financial sector in Ireland may be assumed to be able to exercise 'structural' power because of its significance for the Irish economy. The structural weight of the sector is considerable, since the financial services sector is a significant employer and a major contributor to export earnings. The contribution of financial services to Irish economic growth is heavily concentrated

in the professional support services they require, principally the legal and accountancy activities supporting these firms: financial firms themselves can avail of various preferential tax provisions. Moreover, notwithstanding the assertions by Irish government officials in interview that the regulatory framework was much tightened since 2010, the funds industry operates in a lightly-regulated environment. Policy officials are highly responsive to firms' views about the adverse effects of regulatory compliance requirements (a point confirmed by many of our interviewees). Looking at the contribution of financial services to exports, jobs, and gross value added in the economy, [Table 2](#) shows that Ireland's financial services sector ranks among the top three in Europe (along with the Netherlands and the UK, excluding the unusual case of Luxembourg).¹

There appears to be a strong correlation between the presence of a large funds sector in an economy and that country's opposition to the FTT. EU countries tended to vote in line with the size and significance of their financial sector. Countries with large financial sectors such as the UK, Luxembourg, and Ireland opposed the initiative; countries with smaller financial sectors (measured by the percentage of employment in the finance industry, the number of registered funds, and the contribution to GDP) were favourable and expressed their intention to participate in the enhanced cooperation. [Table 3](#) shows that Ireland has an exceptionally large number of managed funds or hedge funds, second only to the UK.

However, even when the structural explanation is taken at its face value, the estimates of the costs and benefits of an FTT are ambiguous. Different

Table 2. Financial services in the economy: employment, gross value added, share of export profits, 2015.

Country	Gross value added (% of value added)	Share of financial services exports	
		(% of total services exports)	Employment in the financial sector (% of total employment)
Luxembourg	26.62	61.60	18.2
Netherlands	7.39	3.84	2.72
UK	7.24	29.77	3.35
Ireland	6.31	17.55	4.05
Belgium	6.28	8.17	1.11
Italy	5.70	6.47	2.80
Portugal	5.42	1.81	0.80
France	4.48	7.42	1.18
Slovakia	4.34	3.35	0.84
Austria	4.23	5.37	3.60
Slovenia	4.16	2.35	1.10
Germany	4.06	13.20	1.45
Estonia	3.96	1.80	0.71
Spain	3.92	4.75	0.76
Finland	2.85	2.10	0.81

Sources: GVA – OECD (2017) value added by activity: finance and insurance share of financial services exports – World Bank (2017); Insurance and financial services (% of service exports, BoP) (World Bank 2017); Employment in the financial sector – OECD (2017) Population and employment by economic activity (OECD 2017).

Table 3. Number of hedge funds and support for FTT.

Country	Number of hedge funds	Support for European FTT
UK	800	No
Ireland	731	No
Luxembourg	246	No
Netherlands	68	No
Spain	48	Yes
Italy	32	Yes
Germany	22	Yes
Finland	12	Yes
France	13	Yes
Austria	11	Yes
Portugal	3	Yes
Estonia	1	Yes
Belgium	0	Yes
Slovakia	0	Yes
Slovenia	0	Yes

Sources: European Central Bank, city of London report (European Central Bank 2014).

estimates exist of potential revenue yields. A report commissioned by government, jointly undertaken by the Central Bank and the independent Economic and Social Research Institute (ESRI), concluded that ‘the FTT could raise approximately €490–730 million in revenue for Ireland’ as opposed to almost €182 million yielded by the existing Stamp Duty (Central Bank of Ireland and ESRI 2012: 2). The authors cautioned that those predictions were subject to uncertainty: they warned that such a tax might change the behaviour of market actors, for example by reducing the number of transactions and market activity, which would then result in lower yields from the FTT (Central Bank of Ireland and ESRI 2012). They also suggested that

The relocation of a small number of firms who account for a large share of the total volume of equity and bond transactions which would be subject to the tax would reduce the estimated gross tax yield by 83 to 85 per cent (Central Bank of Ireland and ESRI 2012: 3).

The potential benefits were fully acknowledged, but on balance the Central Bank and ESRI advised against the FTT, mostly on foot of the uncertainty of the projected revenue yield due to the unknown risk of firms relocating elsewhere.

On the other hand, Collins (2016), writing for the principal trade-union think tank NERI (the Nevin Economic Research Institute), argued that the net annual yield of the EU FTT would very likely be between €320 and €350 million, even after the abolition of Stamp Duty and the possibility of a reduced volume of transactions. The estimated revenue yield would still be double the yield of the Stamp Duty. Drawing on European Commission reports, the risk of capital flight was downplayed (Irish Congress of Trade Unions 2012: 4–8). A relatively small proportion of the securities that are traded in the secondary market are issued from Dublin, but due to the

issuance principle, Dublin-based firms would be obliged to pay the transaction tax on trades conducted in countries that were party to the FTT anyway, even if Ireland were not to sign up for the FTT. And even if the behaviour of the actors were to change following the enactment of the EU FTT, the securities trade is much less volatile than the derivatives market, on which a lower level of tax is applied.

Thus there was scope for genuine uncertainty about the impact of the FTT on the Irish economy. The explanatory gap concerns why Irish policymakers opted to converge on the preferences of the financial services industry (which unequivocally opposed the FTT from the outset). This now needs to be understood in terms of the ideas that were in play.

Our explanatory model suggests that policy actors share a paradigmatic framework with the financial sector to do with the terms of engagement with market economies. In the Irish case, this involves a deep-seat commitment by the state to an industrial development strategy based on promoting FDI, principally through tax incentives. This reinforces the link between the different dimensions of the policy debate. State actors are motivated by particularly strong priorities that strengthen the bargaining hand of the financial sector. This is captured by Implication A in [Table 1](#).

But this should not be understood as pure coercive power 'over' ideas. As indicated in Implication B in [Table 1](#), if an issue is mobilised into public debate, the outcome is moot. Issue salience disrupts 'quiet politics'. Once politicians are obliged to respond to public opinion on a specific policy issue, the prior tacit understandings are no longer necessarily decisive. Ireland's rejection of the FTT presents us with a least-likely case for investigating ideational power, precisely because structural and instrumental explanations seem to do a lot of explanatory work. But something is still missing in the explanation: how can we most convincingly join up the dots between structural conditions and political outcomes?

The policy framework of economic development in Ireland

We now turn to the background policy considerations motivating the Irish official sector, showing how ideational explanation provide us with the missing explanatory mechanism.

In Ireland, the key to understanding the financial services industry is to see it in the context of the long-standing Irish state project of maintaining a low corporation tax rate to build economic development through attracting foreign direct investment (FDI). At the centre of this strategy is a remarkable state institution, the Industrial Development Authority (IDA), wielding an enormous amount of 'soft power'. Its role is highly activist and interventionist, targeting and cultivating potential investors. It goes further: it also plays a significant role in arranging local site visits, helping investors to acquire real

estate and source trained staff, enabling networking with key state actors, and more besides (Breznitz 2012; Ó Riain 2004).

In the mid-1980s, the IDA moved into a new phase of activism, targeting the emergent industrial sectors of information and communications technology, pharmaceuticals, and medical devices. The payoff in jobs and exports was impressive, and this formed the basis of the export-led phase of the Celtic Tiger in super-normal, catch-up growth during the 1990s (Honohan and Walsh 2002; MacSharry and White 2000). The International Financial Services Sector (IFSC), an umbrella public-private-partnership vehicle dating from this era, was a political project from the outset. It was driven by the Department of the Taoiseach, the Department of Finance, the Industrial Development Authority, and (initially) the Central Bank with the aim of generating a competitive financial services sector from a very limited base. This was motivated by nationalist ambitions to bring about economic recovery against the bleak backdrop of very high unemployment and emigration during the 1980s (interview 7). The IFSC would regenerate the run-down city-centre Docklands area by extending the FDI tax and investment incentives regime to internationally traded financial services, though location-specific policy rules were later relaxed (Interviews 2, 5). Over a period of some thirty years Ireland developed a lucrative financial services sector employing up to 40,000 people (in a workforce of about two million).

The importance of FDI in the Irish growth model, and the specific place for the financial sector within this model, privileges its concerns in the eyes of government and in the priorities of the IDA. The extent of political consensus around the build-up of Ireland's export-led growth model is the source of the convergence between the government policies and industry interests. Alternating governments exhibit no fundamental partisan differences on this development strategy: hence its paradigmatic status. The state institutions (especially the IDA) and the public bureaucracy therefore encounter very little ideational or ideological challenge to their prevailing conceptions stemming from changes in ministerial portfolios. The first element of Hall's account of a policy paradigm, that is, the broad goals of the policy itself, is virtually unchallenged, and there is little basis for party-political electoral mobilisation on the matter.

These shared policy priorities are further institutionalised through the consultative forum that brings together representatives of the industry and of the state sector. The International Financial Services (IFS) Industry Advisory Committee (IAC), often referred to as the Financial Services Industry Group, is a structured consultative body through which industry priorities are relayed to policy-makers, similar to industry corporatist bodies in other countries including the UK. The IAC High-Level Implementation Group is made up of twelve members: politicians and senior civil servants from the core economic and revenue divisions; the IDA; representatives from various branches of the

financial services industry; and the main accountancy and tax advisory firms (Irish Financial Services 2017). It was central to developing Ireland's long-term strategy for financial services (Department of Finance 2017).

The institutional framework should not be seen merely as a transmission belt for the financial services industry to convey its preferences into the heart of government and of public policy. But the structures do generate additional scope for power 'over' ideas and 'club governance' as indicated in Implication C in Table 1. The IAC provides an arena within which the market-conforming preferences of the industry on the one side, and the economic development priorities of the state officials on the other, can find common ground – the politics of normalising ideational outlooks as 'common sense'.

The Irish financial services sector includes standard mainstream activities such as pensions funds, insurance, retail banks. The growth areas have been in managed funds and Special Purpose Vehicles (SPVs), particularly since the liberalisation of tax treatment of Structured Financial Funds. Financial Vehicle Corporations (FVCs) play a particularly important role in securitisation, including in relation to income assets such as residential mortgages. There were 875 of these in summer 2017, and almost a thousand other SPVs, many of which were incentivised through tax benefits to enter the Irish market because of the scale of profits to be gained from holding property loans acquired in Ireland following the financial crisis (Brennan 'Irish special purpose vehicle assets reach €763bn' 2017a). Financialisation of this sort burgeoned, largely free of either national or international oversight. Regulation of the shadow-banking sector was slow to catch up with the volume of activity it generated: 'Central Bank data is inconsistent with revenue data and has resulted in regulatory gaps' (Stewart and Doyle 2017: 396).

EU initiatives have tightened the regulatory apparatus in recent years. Most hedge fund activity is now regulated by the authorities in Ireland or elsewhere, and the Alternative Investment Funds Managers Directive (AIFMD) 2011, among other EU schemes, has extended the scope of financial regulation deeper into the shadow banking sector. But the international scale of finance and the complexity of regulatory jurisdictions demand much more active monitoring and international coordination than national oversight agencies can normally muster (Griffin and Brennan 2016). There is still considerable scope for international regulatory and tax arbitrage, and the Irish financial services sector has become a significant player in exactly this field (Brennan 'Russia's growing banking crisis to hit IFSC vehicles, experts warn' 2017b).

For or against the FTT?

There was a wide-ranging civil society campaign in favour of the FTT; the financial services industry opposed it; the government initially kept an open

mind and then came down against it. What accounts for the eventual government outcome?

The pro-FTT campaigners

Support for Ireland's adoption of the FTT was led by the 'Robin Hood Tax' campaign, driven by a coalition of over 40 leading civil society and trade union organisations under the umbrella term 'Claiming Our Future'. This coalition is committed to tax justice, distributive justice, environmental concerns, and justice in global as well as national developmental priorities. Considerable energy was committed to publicising the issues surrounding the FTT and building the credibility of the campaign, the better to boost public support and gain the attention of the policy establishment. Among the coalition's initiatives, they commissioned a report from reputable policy analysts that was intended to make a strong mainstream economic case for the FTT and to counter the influence of the Central Bank and ESRI report (Central Bank of Ireland and ESRI 2012; Collins 2016). Its website featured a prominent display of pro-FTT quotes from European politicians including Angela Merkel and François Hollande. It organised public meetings, public gatherings, and other events. It acted as a typical 'policy entrepreneur', trying to change the terms of discourse to advance its cause and drawing on normative as well as analytical resources (Irish Congress of Trade Unions 2012). The risk of disinvestment, activists argued, should not be a compelling consideration: 'for each argument they bring up, which is always "London, they will all go to London", we brought up mainly other European countries that are joining the FTT, they are not leaving. So why would they leave Ireland?' (Interview 9).

However, despite these efforts, the campaign was able to gain little traction within the political process. Only the small leftist parties openly supported its aims, while none of the mainstream parties of centre-right or centre-left would do so. Its leaders found it difficult to get access to consultative pre-Budget meetings with Department of Finance officials.

In essence, the civil society ideational mobilisers lost the battle of ideas: 'we are struggling to find the arguments in terms of countering all the myths that have been repeated' (Interview 9). They were keenly aware of the market-centred ideas prevalent among Irish policymakers: 'there is an ideology in Ireland, a mainstream one, and the FTT might not properly fit in there as market regulation' (Interview 9). They could not frame their case in a way that gained sufficient credibility with those committed to the paradigmatic framework of FDI-led, tax-incentivised economic growth. They could not then appeal to a 'politics of common knowledge' among policy-makers and protestors that would give them legitimacy and access (Culpepper 2008). But neither could they credibly sustain a discourse around an alternative value-system that would 'shame' the dominant voices in the debate. Polling

data confirm that public opinion in Ireland was, on average, less receptive to the Robin Hood Campaign arguments than was the case in other European countries (Eurobarometer 2012).² The civil society pro-FTT activists could not bring about the political salience required to put serious pressure on the government.

The financial services sector

The financial services industry opposed FTT proposals from the outset. A financial services derivatives sales trader argues that Ireland signing up to FTT would 'distort the market' (Interview 1). Another financial consultant argues that the FTT is a normatively and politically driven project intended to punish the financial sector and that it is not in line with 'economic realities' (Interview 4). Others depicted it as damaging to economic performance – interestingly, not as potentially triggering disinvestment and relocation of existing firms, but because it would introduce uncertainty in the tax regime that could affect future investment decisions: 'It has to be very clear in terms of what authorisation standards are, timelines are, when there are regulatory obligations on firms, and what they are' (Interview 13).

It has proven difficult to track empirical mechanisms through which the industry may have conveyed its preferences to government, whether in terms of the exercise of structural or of instrumental power. In interview, representatives of individual firms, advisory firms, and the industry's overall representative body, all disavowed engaging in direct lobbying or representational activities on the FTT. Both the former long-serving Minister for Finance (Michael Noonan TD) and senior officials in the Department of Finance affirm that no overt lobbying took place. The International Financial Services (IFS) Industry Advisory Committee (IAC), also known as the Financial Services Industry Group, provided a likely forum for the exercise of insider influence or 'club governance'.³ But the puzzle remains as to why both policy officials and government decision-makers proved so amenable to the industry's priorities and preferences.

Policy officials and government decisions

Policymakers and politicians genuinely examined the pros and cons of the proposed FTT: Ireland held the Presidency of the Council of the EU between January and June 2013, and it was then-Finance Minister Noonan who put the issue on the European agenda. An official who worked in the Finance Department during this time confirms that the FTT 'looked like something Ireland might potentially be interested in doing ... I think everyone agrees that they are good lofty ideals and there was nothing that anyone had against them' (Interview 3). A former government minister said that: 'we

didn't oppose (the FTT) in Ireland on principle. We wanted to see what the competitive implications would be' (Interview 12).

As we have already noted, the report commissioned by the government signalled caution about the FTT primarily on grounds of the potential revenue yield, and also because of uncertainty about the effects it might have on firms' behaviour. Policy-makers kept a watchful eye on what was happening elsewhere: if there was general adoption, they would have accepted the FTT.

We would have no problem with it if it had international support – ideally not just from the EU, because the US, Canada, Singapore, other countries were important too. The next best would have been an EU-wide involvement ... (Interview 12).

However, as it transpired, 'the UK came out against it ... We decided we couldn't move unless London moved' (Interview 12). Once it was clear that enhanced cooperation would be difficult to attain, as an industry fund manager commented, 'FTT was a great idea and everybody jumped on the bus. And when they realised exactly where the bus was taking them ... they had to figure out ... how they could get off the bus' (Interview 13). A senior official confirmed that:

Over time it became clear that Ireland did not want to proceed with enhanced cooperation and did not enter the group of eleven ... We are a small open economy. We have to be alert to competitive threats. If the UK and Luxembourg stayed out of it, it was better for us to stay out of it too (Interview 3).⁴

What did this competitiveness threat amount to? Behind the specific considerations concerning the FTT lay the more enduring (or paradigmatic) Irish policy stance, unchallenged by any of the major political parties, supporting tax incentives as a principal component of attracting FDI. A former government minister noted this (a point reiterated by several interviewees):

Competitiveness is not about the trading effect on individual firms. It's about attracting new firms, or more investment from existing international firms. The advantage for Ireland (in relation to the FTT) is in being a tax-free location (Interview 12).

Once the Irish policy officials could see that the FTT would not gain majority traction across the EU, they moved to what might be seen as Ireland's default position in favour of lower taxation. Central to this is the need to maintain their commitment to the 'credibility' of policy continuity and symbolic 'signalling' of pro-business priorities. This was the ideational framework that proved decisive.⁵ An official at the Department of Finance states that:

our model to a large extent, this is both financial services and tax, is very substantially reliant on whether we have certainty with businesses. And we try to give that to the greatest extent possible (Interview 14).

An IDA official confirms that ‘when you are talking to multinationals who are dealing across local borders, a lot of the issue is ensuring that there is no additional tax ... getting certainty in advance on how particular transactions will be dealt with’ (Interview 6). A senior industrial policy official argues that the plans for introducing an FTT were not adopted because ‘[Ireland] is a policy-literate country, we are policy-intelligent. Policymakers have a healthy scepticism, cynicism, against these proposals [FTT] made for ideological reasons’ (Interview 5). This is an almost perfect example of power over ideas (Implication A in Table 1): the ability to present self-interest as ‘regulatory common sense’ and to frame the alternative view as ‘ideological’, driven by political motivation rather than economic rationality (Carstensen and Schmidt 2016; Mügge 2013).

And yet the failure of the Robin Hood Campaign to mobilise public opinion behind the FTT did not necessarily betoken the victory of financial sector preferences in all cases in which policy instruments were contested. A political response can be provoked if an issue concerning the privileged treatment of finance can be profiled credibly. For instance, the issue of the tax treatment of property funds gained serious traction in the political and electoral sphere in 2016. The collapse of the property market had drawn a new surge of mostly foreign investors into distressed property-based assets, often using rather obscure tax shelters and availing of the privileged tax treatment of managed funds, and engaging in active lobbying for maximally favourable operating conditions (McDonald 2017). Government welcomed this because it facilitated disposal of the loan book of the state’s bad bank, the National Asset Management Agency (NAMA) (Storey 2016). However, the government was eventually obliged to legislate to increase the tax liabilities of foreign-owned property funds in the Finance Act 2016 (Chartered Accountants Ireland 2017; O’Donovan 2016).

The reasons why this came about underscore the weakness in the ideational resources available to the Robin Hood Tax campaign. ‘Vulture fund’ speculative activity was clearly linked with the rapidly growing, visible, and highly salient homelessness crisis. Newspapers and other media were actively covering the issue of vulture funds; the matter was taken up by policy entrepreneurs in the political sphere. The terms of disposal of mortgages to speculators was then easy to ‘sell’ as highly problematic to an increasingly irate electorate.

Ideational contestation on a policy instrument, once it became politically salient, produced legislative results, which could be understood in terms of Implication B in Table 1. However, the scope of the new legislation was actually rather limited in its substantive consequences.⁶ It did almost nothing to limit the scope of the activities of the vulture funds themselves, or to strengthen the rights of tenants or of holders of distressed mortgages sold on by banks or by NAMA. The 2016 legislation amounted rather to a

change in the ‘settings of the instruments’, the lightest layer of Hall’s typology and Implication C on our [Table 1](#), rather than a substantive change to the instrument itself; meanwhile, the basic paradigm was unshaken.

Conclusion

Returning to our model in [Table 1](#), our argument is that the formation of national preferences in the context of EU policy initiatives is more complex than is typically thought. This paper has sought to fill an explanatory gap in accounting for the manner in which financial industry interests may be translated into the policy domain such as to result in a convergence of priorities between government and industry in national preference formation. Taking Ireland as a least-likely case, because structural and lobbying arguments seem able to do most of the explanatory work, we argue that an explanatory gap remains, and that ideas and motivations remain crucially important.

To understand the mechanisms at work, we considered the points of convergence and divergence between the ideas and preferences of public officials and industry interests. By teasing out the role of ideas that are in play at different levels of a dominant policy paradigm, we gain a new insight into the terms on which financial interests can exercise political influence.

The key argument is that the apparent alignment of national interests with industry preferences in this case comes not from state capture but works through a different pathway. The dominant policy paradigm is grounded in a commitment to a developmental strategy that prioritises credibility and stability of commitments on tax and regulation, but that is not averse to coordination and collective action on an international scale where appropriate political and legislative supports are in place.

We find that contestation of policy ideas remains possible at all levels, but that the role of policy entrepreneurs in moving issues into the public and electoral domain is itself conditional. And finally, even on issues that have considerable salience (financial crises, homelessness), mobilising an alternative ideational framework can have differential success, depending on how easy it is to filter it through the weight of the dominant policy paradigm.

Notes

1. The sector has grown remarkably quickly since 2010. The industry group International Finance Services Ireland (IFSI) states that the country has ‘... particular strengths in Hedge Funds (40% of the world’s Hedge Funds are serviced in Ireland)’ (Irish Financial Services 2017). The value of assets invested via Irish domiciled money market and investment funds was €2.7 trillion in late 2015, 12.5 times the entire Irish GDP (IMF 2016). The total value of assets in the financial sector is €4,597 trillion, €2,858 trillion of which is shadow banking (Central

Statistics Office 2016). The total European share of managed investment funds is estimated at some €14 trillion: Ireland's share of these is about €2 trillion, or 15% (Interview 8). As the IMF puts it: 'Ireland is now the domicile of choice for more money market and hedge fund assets than any other country in the euro area' (IMF 2016).

2. In Ireland, 21% of respondents were 'totally in favour' of a tax on financial transactions, while 26% were 'fairly in favour'. 12% said they were 'fairly opposed' to such tax, and 21% 'totally opposed' (Eurobarometer 2012). Among those who favoured the tax, the most popular reason for support was to 'make financial players contribute to the costs of the crisis' (59%), followed by 'combat excessive speculation and so help future crisis' (25%). However, 66% of the total European population expressed support for a European-wide FTT, compared with less than half in Ireland.
3. Access to the minutes of meetings of the executive of the IAC proved to be problematic. Summaries were reported to have been posted online in a move to make the functioning of this body more transparent, but the documents were missing. Neither Department of Finance officials nor industry representatives were responsive to repeated requests for documentary records.
4. Brexit makes this argument all the more compelling. A 2017 Department of Finance report notes that financial services are highly exposed to the British market. Irish exports to the UK account for 10% of Ireland's exports and 19% of total services exports. Compared with other European countries, Ireland is in the upper range of the most exposed countries in a number of service sectors. Looking at the size exposure for Financial Services, at 2.7%, the importance of this sector's exports to the UK for Ireland's total services export portfolio is only exceeded by that of Luxembourg, at 7%. On the proportional exposure measure, 33% of Ireland's Financial Services exports are to the UK (Smith et al. 2017, p. 19).
5. This commitment is further bolstered by reluctance among officials to using a tax for ostensibly regulatory purposes. A tax official in IDA argues that 'First and foremost, [taxation] is about raising money to pay for what you want to do in society. You could get returns, do not get me wrong, but often what you get is market distortion' (Interview 14).
6. 'Finance Act 2016 introduced rules for a taxing method for fund structures where at least 25% of the value of the fund is made up of Irish real estate. Irish Real Estate Funds (IREF) must deduct 20% withholding tax on certain property distributions from the fund' (Chartered Accountants Ireland 2017).

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Appendix

List of interviewees and their affiliations.

Interviewee number	Organization/ role	Date of interview
1	Financial services derivatives sales trader	1 June 2017
2	Financial services tax consultant, large accountancy firm	15 June 2017
3	Financial services FTT adviser, large accountancy firm	15 June 2017
4	Financial consultant	12 June 2017
5	IDA official (financial services)	20 June 2017
6	IDA official (tax)	20 June 2017
7	Industry body	12 June 2017
8	Dept of Finance official	12 June 2017
9	NGO – Robin Hood Tax campaign	9 June 2017
10	Statistician, financial services, CSO	14 June 2017
11	Statistician, tax, CSO	14 June 2017
12	Former Government Minister	28 June 2017
13	Fund Representative	19 July 2017
14	Senior Department of Finance official	19 July 2017
15	Senior Department of Finance official	19 July 2017
16	Industry Support Representative	25 July 2017
17	Elected national politician	26 July 2017